

Ex-ante Evaluation

Private Sector Partnership and Finance Department - JICA

1. Basic Information

Country: Republic of Peru

Project: Project for Support to Micro, Small and Medium Enterprises through Nikkei Credit Union

L/A signing date: December 18th, 2019

2. Background and Necessity of the Project

(1) Current Situation and Issues of the SMEs Sector and the Project's Position

In Peru Micro, Small and Medium Enterprises (SMEs) account for 99.9% of the total number of enterprises and for 82.4% of the total employment, sustaining the base of economy (JICA, 2018). However, the financial inclusion rate of SMEs is only 6% (MEF, 2019) due to credit capability and shortage of risk money from financial institutions, high informality and geographical limitation of financial access (JIC, 2018). The finance gap of the country reaches 10.2 billion USD in 2017, showing the considerable demand of SMEs finance and the importance to promote the financial inclusion of SMEs for the sustainable economic and social development. The Government of Peru launched the National Strategy for Financial Inclusion and aims to increase the ratio of SMEs with loan up to 50% (MEF, 2018). Aligned with the Government policy, this project aims to improve financial access of SMEs of Peru through the expansion of loan operation of Cooperativa de Ahorro y Crédito ABACO (ABACO) to microfinance institutions and SMEs by extending a subordinated loan to ABACO.

(2) Japan and JICA's Assistance Policy for SMEs Sector in Peru

Country Assistance Policy for Peru of Japan (2017) and JICA Country Analysis Paper for Peru (2014) stipulate "Contribution to sustainable economic development" as its basic policy and "Reduction of disparity through the improvement of productivity in urban and rural area" as one of its important cooperation areas. The Policy also indicates the importance of the collaboration with the Nikkei society consisting of more than 100 thousand Japanese descendents today. Commemorating the 120th anniversary of the beginning of Japanese emigration to Peru, the year 2019 has been designated as "Japan-Peru Friendship Year" (Spanish: "Año de la Amistad Peruano Japonesa"), and relations between the two countries have been deepened through various events. In accordance with the development policy of both countries, this project aims to improve the financial access of SMEs and to strengthen the

collaboration with the Nikkei society, contributing SDGs Goal 8 (Improvement of access to financial services), Goal 9 (Industry) and Goal 17 (Partnership).

(3) Other Donors

First co-financing project with IDB Lab, innovation laboratory of the IDB Group.

3. Outline of the Project

(1) Objective: To improve financial access of micro, small and medium enterprises (SMEs) of Peru through the expansion of loan operation of ABACO to microfinance institutions and SMEs by extending a subordinated loan to ABACO, contributing the sustainable economic growth of the country

(2) Site: All over the country

(3) Project: ABACO extends loan to SMEs and microfinance institutions (MFI) with the subordinated loan provided by JICA.

(4) Cost: 10 million USD

(5) Period: 10 years

(6) Structure

1) Borrower: Cooperativa de Ahorro y Crédito ABACO

2) Guarantor: N/A

3) Execution Agency: Same as the Borrower

4) Operation and Maintenance: Same as the Borrower

(7) Collaboration with Other Projects and Donors

1) Cooperation of Japan: JICA and IDB Lab jointly conducted a survey on the potential implementation in Latin America of the micro investment crowdfunding (MIC) operated by Music Securities, Inc. (MS) – a Japanese crowdfunding platformer, followed by an additional survey on the business model of the MIC in Peru in 2018-19.

2) Cooperation of Other Donors: IDB Lab extended a first subordinated loan to ABACO in 2014 and will extend the additional subordinated loan with JICA. IDB Lab also provided technical assistance to ABACO, which allowed ABACO to receive the investment from Japanese individual investors through the MS's crowdfunding platform "Securite".

(8) Environmental and Social Considerations and Gender Category

1) Environmental and Social Considerations

① Category: C

② Rationale: The project is likely to have minimal or little adverse impact on the environment and society according to the Guidelines for Environmental and Social Considerations (April, 2010).

③ Monitoring : ABACO extends loan only to borrowers / projects to be

classified as category C according to the JICA's Guidelines and report the borrowers / projects to JICA.

2) Gender Category: Gender Informed

Rationale: ABACO does not have evaluation criteria on women empowerment.

4. Targeted Outcomes

(1) Quantitative Effects

Indicators	Baseline	Target
Net Loan Portfolio Amount of ABACO	1,247 million PES (apx. 379 million USD) (December, 2018)	1,708 million PES (apx. 438 million USD) (December, 2025)
Disbursement Amount for MFIs and SMEs of ABACO	18 million USD (2018)	27 million USD (2025)
Number of Associates (Socios) of MFIs/SMEs of ABACO	104/5,129 (June, 2019)	119/6,994 (December, 2025)

(2) Qualitative Effects: Improvement of financial access of SMEs

(3) IRR: N/A

6. Lessons Learned

JICA learned a lesson that it is important to support the capacity of credit evaluation and risk administration of financial intermediaries through the ex-post evaluation of a two-step loan project to agricultural credit unions in Thailand. Based on the lesson, JICA confirmed the capacity of credit evaluation and risk administration of ABACO through the comprehensive evaluation.

7. Result of Evaluation

The project aims to improve financial access of SMEs through the Nikkei credit union, aligned with the development issues and policy of Peru and with the cooperation policy of Japan and JICA, and contributing to the SDGs Goals. Accordingly, there is a strong need for JICA to support the implementation of this project.

8. Ex-post Evaluation Plan

(1) Evaluation Indicators: See 4. (1) - (3) .

(2) Evaluation Schedule: In 5 years after the disbursement (2026), tentatively.

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